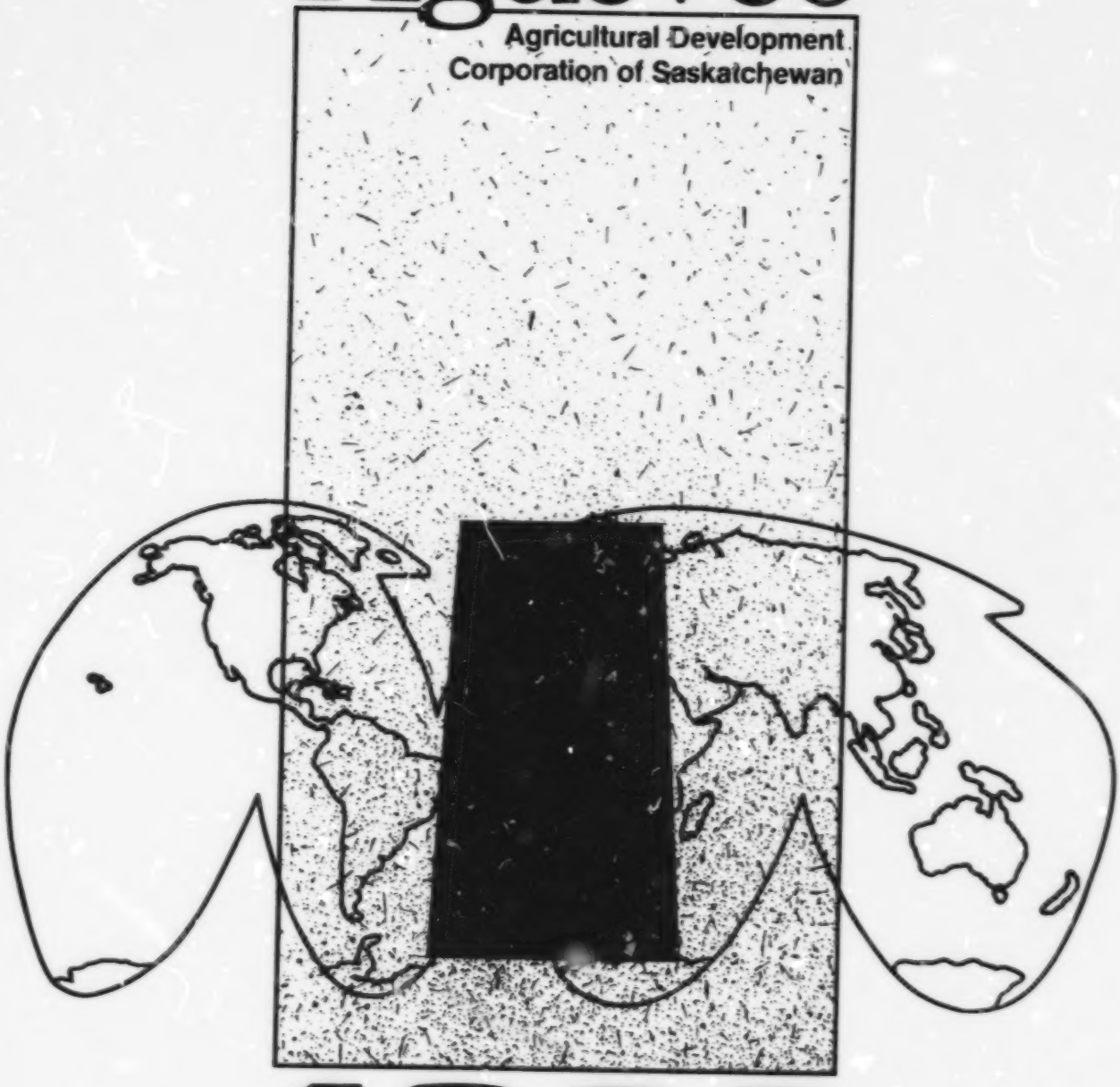
Agdevco

Agricultural Development
Corporation of Saskatchewan



1986
ANNUAL REPORT

Letter of Transmittal

To His Honour,
The Honourable Fredrick W. Johnson
Lieutenant Governor of the Province of
Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Agricultural Development Corporation of Saskatchewan for the year ending December 31, 1986 including financial statements for the year duly certified by the Provincial Auditor and in the form approved by the Treasury Board, all in accordance with the Crown Corporations Act.

I have the honour to be, Sir,

Your obedient servant,

Eric Berntson
Deputy Premier
Chairman of the Agricultural Development
Corporation of Saskatchewan

Chairman of the Board

Honourable Eric Berntson

Board of Directors

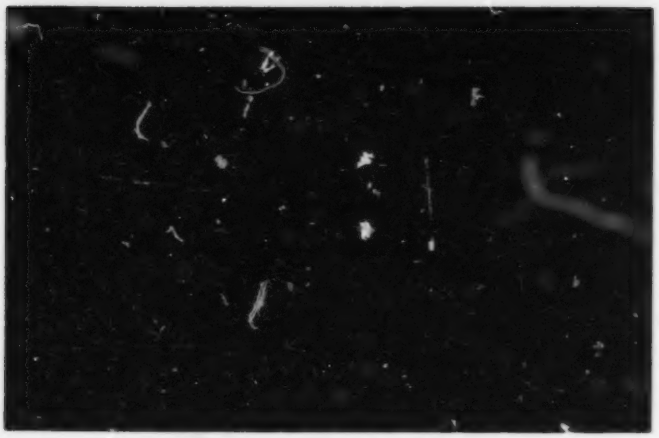
Honourable Eric Berntson, Chairman, Regina
Jack Drew, Vice Chairman, Regina
Ken Alger, Meadow Lake
Jake Willms, Dundurn
Ian Disbery, Corporate Secretary, Regina

International Division

Baling Forage for Dairy Project
State Farm 852
Heilongjiang Province
People's Republic of China

Agdevco, under a five year contract to the Canadian International Development Agency, manages and implements this Dairy, Forage, and Soil Improvement Project in a northern province of the People's Republic of China. The purpose of the project is to establish a mechanized, integrated dairy farm to serve as a model for developing future dairy herds. The objective is to assist China in implementing its policy of diversifying and increasing the production of agricultural products in northern China.

Trade Division



Saskatchewan Grown Field Peas

Peas are just one of a range of specialty crops traded by Agdevco. Recent improvements in the types and varieties of these crops have opened up attractive new opportunities for local producers to diversify their farming operations.

Specialty crops are sourced by Agdevco from Saskatchewan growers and traded in domestic and overseas markets.

President's Report

This year, Agdevco experienced growth in Crops sales and agricultural project management contracts.

Specialty Crops sales increased by 18% over 1985 and contributed 76% of total company revenue. We are encouraged by the goodwill established with growers and plan to build on this network of suppliers to increase volumes traded in 1987.

In the International Division, revenue from agricultural project management contracts represented 14% of the company revenue. 1986 was a year of rapid growth with the securing of two major contracts at the end of the year. One of these contracts is the management of a dryland farming project in Sudan with CIDA financing and the other is a drainage project in Pakistan with World Bank financing. These two projects will increase revenues by approximately 50% in 1987 and produce good revenues over the next 3-5 years.

Livestock sales were down approximately 50% compared to 1985. Agdevco's niche in the international livestock business has centred on the sale of beef cattle to Eastern Europe, especially Bulgaria. Cattle purchases by these countries have been down in recent years.

Countertrade through our Vienna office was initiated in the last quarter of 1986. We expect this trade will be a major growth area along with associated countertrade transactions in new markets.

Overall, the loss in 1986 is a result of a low volume of Livestock sales and business development costs associated with landing two additional international projects at the end of the year.

Bruce Hanson.

Bruce Hanson
Acting President

International Division

1986 culminated with Agdevco managing six agricultural projects overseas. Four of these projects, carried over from 1985, are in Zambia, Lesotho, Egypt, and China. The new projects are in Sudan and Pakistan.

In Zambia, the Zam/Can Wheat Development Project, managed by Agdevco in agreement with the Government of Canada and the Republic of Zambia with funding provided by CIDA, is in its third year.

Phase II of the Lesotho Rural Development Project, funded by Saskatchewan Agriculture and CIDA is nearing completion. Negotiations are underway to extend the project under Phase III until 1992.

The CIDA funded ISAWIP Soil and Water Project in Egypt is scheduled to be completed in 1987.

The Chinese Dairy, Forage and Soil Improvement project funded by CIDA in the Province of Heilongjiang is on schedule and completion is planned for 1990.

The Sim Sim Mechanized Dryland Farming Project II commenced in October and will continue to the end of 1992.

The Faisalabad Fourth Drainage Project in Pakistan, funded by the World Bank, has proceeded through the bidding and award stages in 1986, for implementation commencing in early 1987. Agdevco has formed a joint venture with a prominent Pakistani company to implement this project for Pakistan's Water and Power Development Authority through to 1990.

Trade Division

Crops

Sales increased over 1985 as a result of a large increase in seeded acreage of Specialty Crops in combination with overall good yields. This provided a challenge in the marketing of specialty crops, particularly lentils. Due to adverse weather conditions, harvesting was delayed resulting in lower grades. Consequently, higher grades became a premium commodity in the fall of 1986. In addition to lentils, Agdevco also marketed canaryseed, maple peas, yellow field peas, and wild rice.

Forecasts on a worldwide basis indicate low prices in 1987 for the major grains and oilseeds forcing growers to diversify. More interest is being shown in growing specialty crops and acreages, particularly for pulse crops, are expected to increase significantly in 1987.

We anticipate volume sales will increase due to countertrade export credits in 1987, but this will be offset by lower prices due to a further expected increased production with more growers turning to specialty crops.

Livestock

Livestock sales did not materialize to the expected level in 1986 due in part to the lack of foreign exchange in importing countries and fierce competition from other subsidized supply sources such as Europe. In addition, a major sale to China was not finalized in 1986 as expected. We did, however, conclude another major sale to Eastern Europe, thus maintaining our strong position in this market. Smaller, first time sales were achieved in other markets.

An intensive innovative development programme has been initiated by Agdevco focusing on new market areas as well as established buyers.

Countertrade - Vienna

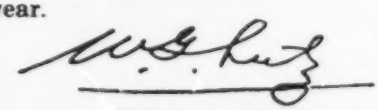
A major new initiative in countertrades was commenced in the fall of 1986. Negotiations began with Trading Companies representing several countries concerning the development of countertrade opportunities in Canadian and foreign markets. With our Vienna office maintaining constant liaison with our clients in Eastern Europe, we expect orders to be placed in 1987 for various products.

Auditor's Report

To the Members of the Legislative Assembly
Province of Saskatchewan

I have examined the statement of financial position of the Agricultural Development Corporation of Saskatchewan as at December 31, 1986 and the statements of operations and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Regina, Saskatchewan
February 20, 1987

W.G. Lutz, F.C.A.,
Provincial Auditor.

Agricultural Development Corporation of Saskatchewan
Statement of Financial Position
As at December 31

	1986	1985
Assets		
Cash and short term deposits	$ 621,235	$ 559,260
Accounts receivable — trade	1,777,842	1,393,818
— other	297,801	17,992
Note receivable due within one year (Note 9)	—	24,281
Inventory	120,256	203,328
Prepaid expenses	825	—
	2,817,959	2,198,679
Note receivable (Note 9)	—	145,685
Fixed assets (Note 3)	135,093	141,565
	$2,953,052	$2,485,929
Liabilities and Province's Equity		
Liabilities:		
Bank indebtedness	$1,392,890	$ 359,702
Accounts payable — trade	1,156,688	1,378,526
— other	12,578	58,815
Long term debt due within one year (Note 6)	17,500	17,500
Advances — international projects (Note 4)	58,918	60,680
Deferred revenue (Note 5)	—	8,264
	2,638,574	1,883,487
Long term debt (Note 6)	91,875	109,375
Obligations under capital leases (Note 7)	41,474	46,252
	2,771,923	2,039,114
Province of Saskatchewan's equity:		
Advance (Note 8)	117,473	117,473
Retained earnings	63,656	329,342
	181,129	446,815
	$2,953,052	$2,485,929

(See accompanying notes)

Agricultural Development Corporation of Saskatchewan
Statement of Operations and Retained Earnings
Year Ended December 31

	1986	1985
Revenue:		
Product sales	$5,317,561	$5,055,594
Commissions and fees	929,340	459,726
Grant from Department of Economic Development and Trade (Note 5)	88,264	164,880
Investment income	41,400	59,240
Other income	58,672	30,185
	6,435,237	5,769,625
Expenditure:		
Cost of product sales and other direct costs	5,406,504	4,670,409
General and administrative	1,282,057	1,238,445
Interest expense	12,362	14,212
Write-off of investment	—	39,369
	6,700,923	5,962,435
Net loss	(265,686)	(192,810)
Retained earnings, beginning of year	329,342	522,152
Retained earnings, end of year	$ 63,656	$ 329,342

(See accompanying notes)

Agricultural Development Corporation of Saskatchewan
Statement of Changes in Financial Position
Year Ended December 31

	1986	1985
Cash provided by (used in):		
Operating activities		
Net loss	$ (265,686)	$ (192,810)
Add items not requiring cash		
— Depreciation	41,861	27,261
— Write-off of investment	—	39,369
	(223,825)	(126,180)
Net change in non-cash working capital items	(838,410)	(525,545)
	(1,062,235)	(651,725)
Investment activities		
Purchase of fixed assets	(35,389)	(61,840)
Reduction in note receivable	145,685	24,281
Investment in joint venture	—	(39,369)
	110,296	(76,928)
Financing activities		
Proceeds of short term borrowing (Note 13)	—	7,750,000
Repayment of short term borrowing (Note 13)	—	(7,750,000)
Assumption of capital lease obligations	8,401	17,510
Repayment of long term debt	(17,500)	(17,500)
Repayment of obligations under capital leases	(10,175)	(7,126)
	(19,274)	(7,116)
Net decrease in cash position	(971,213)	(735,769)
Cash position, beginning of year	199,558	935,327
Cash position, end of year	$ (771,655)	$ 199,558

Cash position is comprised of cash and short term deposits less bank indebtedness.

(See accompanying notes)

Agricultural Development Corporation of Saskatchewan
Notes to The Financial Statements
December 31, 1986

1. **Status of the Corporation**

   Under the authority of an Order in Council, the Saskatchewan Trading Corporation, established in 1974 pursuant to the provisions of The Crown Corporations Act, was continued as the Agricultural Development Corporation of Saskatchewan effective February 1, 1978. The Corporation was reconstituted to provide services which facilitate domestic and export trade in Saskatchewan agricultural products and to serve as an agency in contracting for and managing international development projects.

   The financial results of the Corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan. On December 2, 1986, Agdevco received authorization by an Order in Council to incorporate a subsidiary company. Agdevco International Inc. was incorporated on December 30, 1986 with nominal capitalization. No transactions occurred from the date of incorporation to December 31, 1986.

2. **Accounting Policies**

   a) **Depreciation and amortization**

   The fixed assets of the Corporation are depreciated or amortized on a straight line basis at the following rates per annum:

Office and Other Equipment	10%
Computer Hardware — Owned and Leased	20%
Leasehold Improvements	20%
Computer Software	33 1/3%

   b) **Translation of foreign currencies**

   Balances and transactions in foreign currencies have been translated into Canadian dollars on the following basis:

   i) Cash, at the rate prevailing at the balance sheet date.

   ii) Hedged revenue transactions and related accounts receivable balances at rates based on Forward Exchange Contracts.

   iii) Unhedged revenue and expenditure transactions at provisional rates approximating current rates, adjusted periodically throughout the year.

   c) **Inventory**

   Inventory is valued at the lower of cost and net realizable value.

   d) **Grants**

   Grants received in respect of the trade office in Vienna, Austria are included in revenue to the extent of related expenses incurred during the year. Related expenses include all expenses directly attributable to management and operation of the office as well as a portion representing an allocation of overhead costs. Grant receipts in excess of related expenses are reflected as deferred revenue.

e) **Revenue Generating Activities**

The Corporation enters into the following types of revenue generating activities:

i) the Corporation purchases agricultural products from various producers, locates buyers for the products and then enters into sale agreements with the buyers. These transactions are recorded as product sales and cost of product sales in the statement of operations.

ii) in other transactions, the Corporation acts as agent, arranging for direct sales between buyers and producers. For rendering this service, the Corporation earns commissions and only the commissions on these transactions are included in the statement of operations.

iii) the Corporation also earns service fees for the management of special projects and the conduct of research studies. These service fees are also reflected in the statement of operations.

3. **Fixed Assets**

	1986			1985
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Owned Assets				
Office and other equipment	$ 61,166	$16,174	$ 44,992	$ 36,436
Computer software	66,067	33,479	32,588	39,468
Computer hardware	5,116	2,370	2,746	3,769
	132,349	52,023	80,326	79,673
Leasehold Improvements	9,596	2,559	7,037	8,956
Leased Assets (See Note 7)				
Computer hardware	73,631	25,901	47,730	52,935
	$215,576	$80,483	$135,093	$141,564

4. **Advances — International Projects**

The Corporation, under terms of agreements entered into with the Canadian International Development Agency (CIDA) and the Saskatchewan Department of Agriculture on behalf of a Federal Provincial program known as VADA (Voluntary Agricultural Development Aid), contracts personnel to implement certain international projects sponsored by the agencies.

Under terms of the agreements, the Corporation assumes responsibility for the procurement of all project inputs of both an operating and a capital nature. Advance funding is normally provided by the agencies and the Corporation submits project cost reports on a periodic basis. The Corporation is fully compensated for the services it provides to the projects including a service fee as an allowance for administrative overhead costs.

5. **Grants and Deferred Revenue**

Grants received from the Department of Economic Development and Trade to manage and operate a trade office in Vienna, Austria and for other purposes are accounted for in accordance with the accounting policy described in Note 2(d) as follows:

	1986	1985
Deferred revenue, beginning of year	$ 8,264	$ 93,144
Grants received	80,000	88,666
Grants recognized as revenue or reduction in expense	(88,264)	(173,546)
Deferred revenue, end of year	$ —	$ 8,264

6. **Long Term Debt**

Long term debt consists of a loan from the Crown Investments Corporation of Saskatchewan. The loan bears interest at the prime lending rate minus one quarter percent. Principal repayments of $17,500 are due in each year to 1992. In addition, a final repayment of $4,375 is due at maturity on October 31, 1992.

7. **Obligations Under Capital Leases**

The following is a schedule of future minimum lease payments under the capital leases expiring July, 1992, together with the balance of the obligations under capital leases.

	1986	1985
Year Ended December 31		
1986	$ —	$17,375
1987	19,579	17,375
1988	19,579	17,375
1989	19,579	17,375
1990	6,639	4,435
1991	3,888	1,738
1992	779	—
Total minimum lease payments	70,043	75,673
Less: amount representing interest at 12% - 15½%	15,991	19,847
Present value of obligations	54,052	55,826
Less: amount due in the next year, included in accounts payable	12,578	9,574
Long term obligations under capital leases	$41,474	$46,252

8. **Advance**

The advance received from the Crown Investments Corporation of Saskatchewan is intended as a long term equity capitalization for the Corporation. The advance is non-interest bearing with no fixed terms of repayment.

9. **Note Receivable**

At December 31, 1985, the Corporation had a note receivable of $169,966 due in annual instalments until 1992. During the year, the note was paid in full.

10. **Remuneration of Directors and Officers**

The Corporation's four directors (1985 - five) received $1,350 (1985 - $2,175) from the Agricultural Development Corporation of Saskatchewan. The seven senior officers (1985 - six) received in aggregate $299,878 in salaries for 1986 (1985 - $338,824).

11. Related Party Transactions

Included in these financial statements are expense amounts resulting from various routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

12. Contingencies

The Corporation has guaranteed the repayment of a debt by a customer to SEDCO to a maximum of $130,000 if the customer defaults. Should this occur, the Corporation would have a claim against the assets of the customer.

A former joint venture partner of Agdevco has commenced an action against the Corporation. Because of the preliminary stage in the proceedings, potential liability to Agdevco is indeterminable at this time.

13. Short Term Borrowings

During 1985, loans were obtained from the Minister of Finance to temporarily finance a famine relief program, totally funded by the Province, the Government of Canada and private donations.